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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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IN THE MATTER OF THE REVIEW AND  
POSSIBLE REVISION OF ARIZONA  
UNIVERSAL SERVICE FUND RULES,  
ARTICLE 12 OF THE ARIZONA  
ADMINISTRATIVE CODE

DOCKET NO. RT-00000H-97-0137

IN THE MATTER OF THE INVESTIGATION  
OF THE COST OF TELECOMMUNICATIONS  
ACCESS

DOCKET NO. T-00000D-00-0672

STAFF'S NOTICE OF FILING REPLY  
TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Reply Testimony of  
Wilfred Shand of the Utilities Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of February, 2010.

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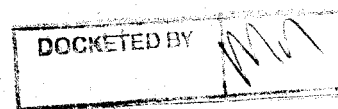
Original and fifteen (15) copies  
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Arizona Corporation Commission

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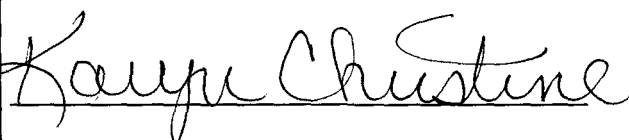
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman

GARY PIERCE

Commissioner

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IN THE MATTER OF THE )  
INVESTIGATION OF THE COST OF )  
TELECOMMUNICATIONS ACCESS )

DOCKET NO. T-00000D-00-0672

REPLY

TESTIMONY

OF

WILFRED SHAND

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 5, 2010

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Wilfred Shand. I am a Public Utility Analyst Manager employed by the  
3 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division  
4 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.  
5

6 **Q. Did you previously file Direct Testimony in this proceeding?**

7 A. Yes.  
8

9 **Q. What is the scope of your Reply Testimony in this case?**

10 A. The purpose of the reply testimony is to address the conclusion and recommendations  
11 contained in the Direct Testimony of Residential Utility Consumer Office (“RUCO”)  
12 witness Dr. Ben Johnson. Staff previously addressed the more significant positions held  
13 by the other parties in this proceeding in its Direct Testimony filed on January 8, 2010.  
14

15 **Q. Dr. Johnson states, “At some point in the future, the Commission may need to move  
16 forward with access charge reform, and at that time it would be beneficial to have a  
17 firm understanding of the issues and options.”<sup>1</sup> Does Staff believe that the  
18 Commission should move forward with access charge reform?**

19 A. Yes. As stated in the Direct Testimony, most of the participants in the Access and Arizona  
20 Universal Service Fund (“AUSF”) workshops stated that arbitrage is a possible outcome  
21 when discussing potential access charge reform. In addition, the Federal Communications  
22 Commission’s (“FCC”) pending intercarrier compensation reform proceeding is driven by  
23 its desire to eliminate unreasonable differences in the rates for access services. It is  
24 because of the differences in rates for essentially the same service that Staff has  
25 recommended that the Arizona Local Exchange Carrier Association (“ALECA”)

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<sup>1</sup> Direct Testimony Page 48, lines 8 to 10.

1 members' rates be set at Qwest intrastate rates. Staff believes that this is a reasonable step  
2 in the move toward consistency with interstate rates.

3  
4 **Q. In addressing the ALECA's revenue neutrality position, Dr. Johnson states, "There**  
5 **are ample reasons to be skeptical about proposals being made in this proceeding that**  
6 **call for "revenue neutrality." <sup>2</sup> Does Staff have a comment on this statement?**

7 **A.** Yes. Staff has recommended that each carrier be required to show that it, in fact, has no  
8 other source of funds to offset switched access charge rate reductions before it is  
9 authorized to receive an AUSF surcharge subsidy. Staff has recommended that the rural  
10 incumbent local exchange companies be required to file R14-2-103 information to allow  
11 the Commission to increase rates to levels that generate additional revenues while  
12 ensuring that ratepayers are provided service at reasonable rates.

13  
14 **Q. Dr. Johnson states, "While internet access is not subject to intrastate regulation (due**  
15 **to Federal preemption), this service uses many of the same fiber and copper cables**  
16 **and other facilities that are used in providing intrastate switched access and basic**  
17 **local exchange service. The Commission should look closely at growth in this service,**  
18 **and evaluate the impact of this growth on the share of network costs which is**  
19 **appropriately borne by intrastate services, including intrastate switched access, and**  
20 **basic local exchange service." <sup>3</sup> Does Staff have a comment on this recommendation?**

21 **A.** Yes. Staff would note that while there are many uses of the network that generate  
22 additional revenues for the incumbent local exchange companies ("ILECs"), the costs  
23 associated with these services have been removed from the intrastate revenue  
24 requirements through the separations process using rules that were instituted by the FCC.

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<sup>2</sup> Direct Testimony of Dr. Ben Johnson, Page 49, lines 13 to 14.

<sup>3</sup> Direct Testimony Page 49, lines 18 to 23.

1 **Q. Dr. Johnson further states, "The Commission should reject proposals that any**  
2 **switched access reductions must be 'revenue neutral.' A policy of "revenue**  
3 **neutrality" is appealing to carriers, since it would protect them from any adverse**  
4 **changes in their revenues, but it is not fair to customers. Revenue neutrality fails to**  
5 **protect customers from bill increases, it fails to ensure that the public interest is**  
6 **protected, and it is not a sufficient basis for waiving the standard requirement for**  
7 **rate changes to be accomplished in the context of a fair return on fair value rate**  
8 **case."**<sup>4</sup> **Does Staff have a response to Dr. Johnson's position?**

9 **A.** Staff's preferred option to address revenue changes resulting from access charge reform is  
10 to have the companies file rate cases to support the need for the revenue neutral revenue  
11 draw. Staff's alternative recommendation assumed that even with temporary revenue  
12 neutral AUSF funding, the companies would have to file a rate case to justify continued  
13 revenue flows funded by a statewide AUSF surcharge.

14  
15 **Q. Dr. Johnson recommends that, "If payments from the AUSF are to be significantly**  
16 **expanded, it would be appropriate to look at options for simultaneously expanding**  
17 **the scope of the fund, to encompass additional carriers and additional services."**<sup>5</sup>  
18 **What is Staff's position on this issue?**

19 **A.** Staff has recommended that the Commission, in the context of a rulemaking, consider  
20 amending the manner in which the surcharge is assessed.

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<sup>4</sup> Direct Testimony Page 50, lines 12 to 18.

<sup>5</sup> Direct Testimony Page 52, lines 2 to 4.

1     **Q.     Dr. Johnson states that “AUSF support should be readily transferable from one**  
2     **carrier to the next, if a customer in a high cost area changes carriers.”<sup>6</sup> Does Staff**  
3     **have a comment on the suggestion that AUSF support be transferrable?**

4     **A.**     Yes. Staff would note that implementation of this recommendation, while theoretically  
5     attractive, would likely suffer from some practical shortcomings. In making federal USF  
6     support available to wireless companies, the FCC implemented an identical support rule  
7     that provided wireless companies with the same level of support as the ILECs. This  
8     support was provided without regard to the wireless companies’ costs of providing the  
9     service. In addition, the FCC has essentially held the incumbent local exchange  
10    companies harmless. If a high cost company lost customers to wireless companies, their  
11    support, on a study area basis, does not change. This practice led to significant growth in  
12    the revenues required to fund the federal USF. On May 1, 2008, the FCC released an  
13    order in which it adopted an interim, emergency cap on the amount of high-cost support  
14    that competitive eligible telecommunications carriers (“ETCs”) could receive. As of the  
15    effective date of the Order, total annual competitive ETC support for each state was  
16    capped at the level of support that competitive ETCs in that state were eligible to receive  
17    during March 2008 on an annualized basis.<sup>7</sup> Further, portability from Staff’s perspective  
18    means that as a customer changes carriers, the support that follows the customer to the  
19    new carrier would be offset by an equivalent reduction in the support provided to the  
20    carrier that loses the customer. Staff does not believe that such a provision can be  
21    implemented absent the processing of an R14-2-103 filing by a company.

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<sup>6</sup> Direct Testimony Page 52, lines 21 to 22.

<sup>7</sup> *In the Matter of: High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Alltel Communications, Inc., et al.; Petitions for Designation as Eligible Telecommunications Carriers; RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment*, WC Docket No. 05-337 and CC Docket No. 96-45, Released: May 1, 2008, Para. 1.



- 1     **Q.     Does this conclude your Reply Testimony?**
- 2     **A.     Yes, it does.**